

VZCZCXRO5897
OO RUEHAG RUEHROV
DE RUEHKB #0893/01 2621349
ZNY CCCCC ZZH
O 181349Z SEP 08
FM AMEMBASSY BAKU
TO RUEHC/SECSTATE WASHDC IMMEDIATE 0024
INFO RUCNCIS/CIS COLLECTIVE PRIORITY
RUCNMEM/EU MEMBER STATES PRIORITY
RUEHAK/AMEMBASSY ANKARA PRIORITY 3008
RUEHAH/AMEMBASSY ASHGABAT PRIORITY 0579
RHMFISS/CDR USEUCOM VAHINGEN GE PRIORITY
RUEAIIA/CIA WASHINGTON DC PRIORITY
RHEBAAA/DEPT OF ENERGY WASHDC PRIORITY
RUEKDIA/DIA WASHDC PRIORITY
RHEHNSC/NSC WASHDC PRIORITY
RUEKJCS/JOINT STAFF WASHDC PRIORITY

C O N F I D E N T I A L SECTION 01 OF 04 BAKU 000893

SIPDIS

E.O. 12958: DECL: 08/18/2018
TAGS: [PGOV](#) [PREL](#) [AJ](#) [TU](#) [TX](#) [ENRG](#)
SUBJECT: AZERBAIJAN LAYS OUT A VISION OF, AND SEEKS USG
SUPPORT FOR, ITS SOUTHERN CORRIDOR STRATEGY

REF: BAKU 868

Classified By: Ambassador Anne E. Derse, Reasons 1.4 (b,d)

¶1. (C) SUMMARY: In a September 18 meeting with DAS Bryza and Ambassador Derse, SOCAR Marketing VP Elshad Nassirov outlined a sober and comprehensive approach to catalyzing our Southern Corridor efforts. Driven by the shock of recent events in Georgia, Nassirov reflected a level of urgency shared by his President in his subsequent meeting with Bryza, Nassirov asked for high-level USG support to help persuade the Turkish Government that it is in its own long-term best interest to allow Caspian gas to transit Turkey, and to help persuade the Turkmenistan Government to sell gas from the offshore Livanov field to Turkey. If the GOTX were to sell gas to Turkey at its border, Azerbaijan could build an interconnector (i.e.a Cross-Caspian pipeline), Turkey would get the short-term eight bcm/a it is seeking, Azerbaijan would get transit through Turkey, Russia would be compelled to offer Turkmenistan European netback prices, and there would be enough gas to sanction Nabucco (and other) pipeline. For the first time, Nassirov indicated Azerbaijan had decided to proceed with development of ACG deep gas, which could provide significant new gas volumes in the next few years. Nassirov also confirmed that he will be in Washington DC October 1-2. Embassy Baku recommends that the relevant senior level policymakers working on regional energy issues meet with Nassirov during this visit, whose strategic vision and practice problem-solving approach drives much of Azerbaijan's energy policy. END SUMMARY.

¶2. (C) On September 18 DAS Bryza and Ambassador Derse met with SOCAR VP for Marketing Elshad Nasirov. Also present were Murad Heydarov, Senior Advisor to the SOCAR President, and EnergyOff (notetaker).

TURKEY STILL THE PROBLEM

¶3. (C) Nassirov told Bryza that the GOAJ would not take ongoing commercial negotiations with European potential buyers of Shah Deniz Phase Two (SD2) gas any further until and unless Turkey agreed to transit Azerbaijan gas to Europe, since doing so would "show Turkey that we don't have any other option." He underscored that Azerbaijan would exercise its option to leave the gas in the ground if it cannot establish a direct relationship with European buyers, in support of Azerbaijan's broader strategic goal of European integration.

SOCAR-GULER READOUT

14. (C) Nassirov said that in talks last week with GOT Energy Minister Guler and Botas Director-General Duzyol, SOCAR sought to convince them that GOT long-term interest lay in granting transit, and that the GOT should be thinking beyond the 2013 timeframe. Of the three countries that can serve as transit for Caspian and Central Asian gas, Ukraine transits approximately 100 bcm/a, Belarus approximately 70 bcm/a (COMMENT - gas transiting Belarus is closer to 20 bcm/a END COMMENT), and Turkey zero bcm/a. If Turkey opens its doors for gas, not only will its strategic significance for Europe increase, but Turkey will also attract greater gas volumes for itself, since countries east of Turkey will get the best netbacks by selling to the Turkish market. With open Turkish gas transit, SOCAR had told Guler Turkey could attract a minimum of 50 to 70 extra bcm/a, to say nothing of the additional investment it would get in Turkish energy infrastructure. Guler's response remained that Turkey "wanted its eight bcm/a" from SD2.

15. (C) Nassirov said that in these approximately eight hours of meetings held with Energy Minister Guler and Botas last week, SOCAR had also made a specific proposal that if Turkey dropped its insistence on eight bcm/a from SD2 and settled for four bcm/a, and allowed no more and no less than 7 bcm/a of SD2 to be sold to Europe, Turkey could have the option to buy not just all excess SD2 gas (excluding 3 bcm/a for Azerbaijan and Georgia), but also future production from SD, ACG Deep Gas, Umid, Absheron, Sardar-Kyapaz, and any other GOAJ-based gas development. Guler refused the offer, saying

BAKU 00000893 002 OF 004

the GOT "wanted its eight bcm/a" from SD2. When SOCAR responded that if Turkey insisted on eight bcm/a from Azerbaijan it would wind up getting no gas at all, as Azerbaijan would not develop SD2, and that as a result Turkey would have to seek the volumes it would have gotten from Azerbaijan and east of Azerbaijan elsewhere, Guler responded to the effect that "fine, let it be zero."

16. (C) Nassirov said that Guler had complained to SOCAR that the USG, EU and others were not helping Turkey in its quest for short-term gas security, since they were not ensuring that Iraqi gas would directly flow to Turkey and not through Syria or elsewhere. In this regard, Nassirov said that Shell's CIS Strategic Advisor Dr. Neal Carmichael had recently told him that in talks with Shell, the GOT was similarly refusing Shell requests to provide transit to gas slated to be developed from Iraq's Aqqaz field, demanding that Shell sell the GOT "all ten bcm/a" of Aqqaz gas (NOTE: Most estimates are that this field will produce o/a 7 bcm/a. End note.).

GOT-GOTX GAS DEAL

17. (C) Nassirov said another proposal SOCAR had made to Guler and Duzyol was that Turkey buy four bcm/a from SD2, and get the other four bcm/a it needed from Turkmenistan, under the existing 1998 SPA the two countries had signed. If Turkey were to actualize this existing contract, filling out details such as delivery point, Azerbaijan would construct the pipeline to Block One (Livanov). Nassirov had told Guler that given GOTX over-commitments for 100 bcm/a (30 for Russia, 40 for China and 30 for Turkey), it would choose to carry out those contracts with the best netbacks, with Block One gas westwards yielding this best price and highest netback. Guler had responded to Nassirov that he had visited Ashgabat two weeks prior, and he agreed with SOCAR to return there for more talks, adding however that Turkey was skeptical that Livanov gas could move west, as it had already been committed to Russia.

18. (C) Nassirov told Bryza that SOCAR had also pitched this idea of a GOTX-GOT gas deal the previous week in its talks

with its talks with the GOTX Energy Minister and the new head of the State Hydrocarbon Agency. Both of them had told SOCAR that they liked the idea, but "someone must inform the President," the implication being that neither of them would dare take the matter to Berdimuhamedov themselves.

REQUEST FOR USG SUPPORT

¶9. (C) In regard to a possible GOTX-GOT gas deal Nassirov told Bryzathat "Azerbaijan cannot do it alone." President Aliyev would never ask Berdimuhamedov to sell gas to Turkey. As such, he asked for USG support to help actualize this deal) "Russia is on the move and the EU is dormant . . . Turkmen leaders are afraid to raise this proposal with their president...we need your support to explain the proposal to President Berdimuhamedov." More generally, Nassirov said that GOT transit could not be solved at the GOT Energy Minister/Botas level, and asked for USG support in getting the Turkish PM and President to realize the strategic advantages of the Southern Corridor project, and to get them involved in working with Azerbaijan to find a mutually agreeable solution on transit and gas sales.

ACG DEEP GAS

¶10. (C) Nassirov told Bryza that the GOAJ had "decided to proceed" with the development of the largest known undeveloped gas field in Azerbaijan, i.e. ACG non-associated gas (aka "ACG Deep Gas") non-associated gas under the oil field currently being developed by the AIOC Consortium). However, in order to do so, it must have a sales market for this gas, which it can't have until Turkish transit is solved. Turkey "cannot be considered a realistic and profitable market" at this point, since it is refusing to pay anything close to market price for gas, offering to buy Shah Deniz Phase One gas at the price of USD 144 per thousand cubic meters, with a ten percent price increase in 2009

BAKU 00000893 003 OF 004

(NOTE: Botas and the SD Consortium are currently renegotiating the price of SD1 gas, currently at the severely under-market price of USD 120/tcm due to price ceilings on the gas for the first year of the SPA contract). More generally, Nassirov said "there is no sense in producing" additional gas in Azerbaijan without transit through Turkey, since without transit SOCAR will be beholden to the Turkish market, giving Turkey the power to 'renegotiate' prices downwards a few years into the contract.

¶11. (C) Nassirov told Bryza that the GOAJ had "no desire" to sell any gas to Russia or Iran, but it has listed these two countries as potential buyers of SD2 gas so that SD Consortium member TPAO will tell the GOT that the SD Consortium is seriously considering non-Turkish-dependent options.

NABUCCO

¶12. (C) Nassirov told Bryza that of the six Nabucco partners, RWE Midstream seemed the most active in seeking to get the project off the ground, more so than, inter alia, OMV, who was seeking various deals with Russia. He had proposed to both RWE and Nabucco partner OMV that "Nabucco start in Azerbaijan," i.e. that a cross-Caspian pipeline to the GOTX Livanov Block could be eastern terminus. Azerbaijan could build such a pipeline in Azerbaijan and Georgia. Conversely, Azerbaijan was exploring the possibility of building a cross-Caspian pipeline to Turkmenistan ostensibly for the purpose of selling its gas to China.

¶13. (C) Nassirov told Bryza that SOCAR's point to the GOTX about a cross-Caspian pipeline is that once such a pipeline is built the GOTX is assured of getting market prices for its

gas from Russia even if it never uses the pipeline to ship gas west. Azerbaijan could build such a cross-Caspian pipeline, approximately 200 kilometers long, "in less than one year) we only need Berdimuhamedov's agreement." (COMMENT: Energy Minister Natiq Aliyev later told Bryza it could be done in five to six months, based on the GOAJ's experience with the Shah Deniz Phase One transport infrastructure END COMMENT). Building this pipeline need not wait on overall Caspian delimitation, environmental issues, or the specific delimitation/ownership issue for the disputed Sardar-Kyapaz (S-K) offshore field, and "Turkmenistan is losing money" the more it delays in agreeing to such a pipeline.

S-K DELIMITATION

¶14. (C) Nassirov said that the GOAJ needed a "face-saving agreement" in which SOCAR could be the operator for the S-K field while "95 percent" of the oil and gas belonged to the GOTX. Azerbaijan understands that under international law "at most" fifteen percent of S-K belongs to the GOAJ. The PSA would be confidential, so the public need not know the relative ownership percentages for each country.

GOAJ GAS FOR GREECE

¶15. (C) Nassirov told Bryza that SOCAR had offered to "take over" the existing supply contract Botas has with the Greek energy company DEPA. Botas is losing hundreds of millions of dollars with the contract, since it is selling gas to Greece at USD 149/tcm that it is buying for, on average, USD 420/tcm. SOCAR was willing to take over this contract, paying a fair transit price to Turkey, merely to establish the principle of direct gas sales to Europe through Turkey. However, Botas has not accepted this offer.

THE WAY FORWARD

¶16. (C) Concluding, Nassirov told Bryza that the three GOAJ energy issues with Turkey, Turkmenistan and gas for Nabucco cannot be solved in isolation but must be solved in combination. With Livanov gas, Turkey would get its eight bcm (four from SD2, four from Block 1) and Europe get 15-20 additional bcm/a via a Nabucco (and other) pipeline that

BAKU 00000893 004 OF 004

starts in Azerbaijan. Nassirov noted that BP confidential estimates are that Block One could start producing significant amounts o/a 2010, with up to 17 bcm/a by 2017. Azerbaijan in this instance would become the seventh Nabucco partner, financing pipeline construction in the Caspian to the GOTX border, in Azerbaijan itself, and in Georgia. In this regard, Nassirov noted it would take USD 2.5 billion to expand the SCP pipeline.

NASSIROV IN DC

¶17. (C) Nassirov confirmed that he would be in Washington, DC October 1 and 2, and was willing to meet with USG officials. DAS Bryza said that USG policymakers would benefit greatly from talking with him, and said he would work to set up meetings for Nassirov.

¶18. (C) COMMENT: Nassirov, the SOCAR executive primarily responsible for gas sales abroad and President Aliyev's closest advisor on gas strategy, continues to seek any/all means to make the Southern Corridor a reality, by seeking to convince Turkey to provide gas transit in accordance with existing commercial and legal norms. He offered Bryza a sober, practical, and comprehensive way forward that reflects a greater degree of urgency due to the shock of recent events in Georgia. We should support

Azerbaijan's request for USG support to 1) work with our GOT ally to find a mutually agreeable solution to transit, and 2) persuade the GOTX to sell gas at its border to the GOT. In a meeting later in the day with DAS Bryza, President Aliyev strongly reinforced this request for USG help (upcoming septel). Additionally, Embassy Baku and DAS Bryza strongly recommend that the relevant senior level policymakers working on regional energy issues meet with Nassirov during his October 1-2 Washington DC visit, and we will be seeking to arrange such meetings. END COMMENT.

119. (U) DAS Bryza has cleared this cable.
DERSE